



# **Compliance Supplement for Single Audits of State and Local Governments**

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**Executive Office of the President  
Office of Management and Budget**

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## **Part 1. INTRODUCTION**

# INTRODUCTION

This document sets forth the major compliance requirements that should be considered in an organization-wide audit of State and local governments that receive Federal assistance. It supplements OMB Circular A-128, "Audits of State and Local Governments."

Following the Introduction, the document is divided into Parts 2 and 3. Part 2 contains those generally applicable requirements that shall be considered in financial compliance audits. Generally applicable requirements are national policies prescribed by statute, Executive order, or other authoritative source and which apply to the assistance programs of two or more agencies. Those included here are ones that, if not observed, could have a material effect on the organization's financial statements including those prepared for Federal programs.

Of particular note is inclusion of the requirement for periodic Federal financial reports, as specified in Section 41 of "Uniform Administrative Requirements for Grants and Cooperative Agreements to State and Local Governments" (common rule) published in the *Federal Register* on March 11, 1983 and agency regulations covering open-ended entitlement programs. The auditor's test of compliance with this requirement, for those grant programs where such requirements exist, provides the Federal Government with the necessary assurances of completeness and reliability of such reports.

Part 3 of the document provides requirements that are specific to programs that provide over 90 percent of the Federal aid to State and local governments. For each program, the following is provided: Objectives of the program; a brief description of how the program operates; and the major compliance requirements, including a Code of Federal Regulations (CFR) or statutory reference where additional information for the requirement can be obtained. The requirements are organized into five categories: (1) types of service allowed or unallowed; (2) eligibility; (3) matching, level of effort or earmarking requirements; (4) reporting requirements; and, (5) special tests and provisions. Federal agencies

have determined that, in general, not complying with those requirements might materially affect the program.

Each requirement is accompanied by suggested audit procedures that can be used to test for compliance. These are not the only procedures an auditor can use. Nor are they mandatory procedures. Auditors should apply professional judgment and use any procedures that they choose to decide the extent of reviews and tests performed. Some of the audit procedures call for review and evaluation of internal controls. If these reviews and evaluations have been made as part of the review of the internal control structure, the audit procedures on individual programs should be tailored accordingly.

Since some programs provide funds that pass from one level of government to another, some of the requirements are for the government that receives the funds initially and makes the allocations to others; some are for the government that receives the funds ultimately and provides the services; and, some are for both. The auditor should be able to determine the applicable procedures in each instance.

The Federal departments and agencies have identified the compliance requirements and suggested audit procedures for each program as the ones that will meet the compliance testing requirements of Circular A-128, "Audit of State and Local Governments." However, the auditor is responsible for ensuring that specific requirements which are modified because of changes in laws or regulations are included in the audit procedures.

Questions regarding a requirement, including requests for information about changes in requirements, should be addressed to the administering agency. Requirements and suggested audit procedures for smaller grant programs not contained herein can also be obtained from the administering department or agency. Also, auditors may refer to the statute or Code of Federal Regulations to obtain complete requirements.

## **Part 2. GENERAL REQUIREMENTS**

## GENERAL REQUIREMENTS

Several statutory and regulatory requirements are applicable to all or most Federal assistance programs. The following are those requirements that involve significant national policy and for which failure to comply could have a material impact on an organization's financial

statements including those prepared for Federal programs.

Accordingly, these compliance requirements shall be included as part of every audit of State, local, and Tribal government that involves Federal financial assistance whether or not the government has a major program.

## POLITICAL ACTIVITY

### *Compliance Requirement*

Federal funds cannot be used for partisan political purposes of any kind by any person or organization involved in the administration of federally-assisted programs.

[Hatch Act (5 U.S.C. 1501-1508) and Intergovernmental Personnel Act of 1970, as amended by Title VI of Civil Service Reform Act (Public Law 95-454 Section 4728)].

### *Suggested Audit Procedures*

- Test the expenditure and related records for indications of lobbying activities, publications, or other materials intended for influencing legislation or similar type costs.
- Test the personnel and payroll records, and identify persons whose responsibilities or activities include political partisan activity.
- Test whether the above costs, if any exist, are charged directly or indirectly, to federally-assisted programs.

## DAVIS-BACON ACT

### *Compliance Requirement*

When required by Federal grant program legislation, all laborers and mechanics employed by contractors or subcontractors to work on construction projects financed by Federal assistance must be paid wages not less than those established for the locality of the project by the Secretary of Labor. (40 Stat 1494, Mar. 3, 1921, Chap. 411, 40 U.S.C. 276A-276A-5).

### *Suggested Audit Procedures*

- Identify the programs involving construction activities.
- Review selected construction contracts and subcontracts and determine whether they contain provisions requiring the payment of "prevailing" wages.
- Review the government's system for monitoring applicable contractors and subcon-

tractors with respect to payment of prevailing wages and evaluate for adequacy.

- Review the monitoring system for contracts for selected programs and determine whether there is adherence to the prescribed procedures.
- For governments which have not developed a system, or whose system is not operating effectively:
  - Obtain the "local" DOL wage determination from the auditee, the architect/engineer (A/E) managing the project, or DOL.
  - Obtain from the auditee payroll registers of the construction company and test to determine whether wages paid conform to the prevailing wages.



## CIVIL RIGHTS

### *Compliance Requirement*

No person shall, on the grounds of race, color, national origin, age, or handicap, be excluded from participation in or be subjected to discrimination in any program or activity funded, in whole or in part, by Federal funds. Discrimination on the basis of sex or religion is also prohibited in some Federal programs. (Age—42 U.S.C. 6101 *et seq.*; Race—42 U.S.C. 2000d; Handicap—29 U.S.C. 794.)

### *Suggested Audit Procedures*

- Determine whether the governmental unit has announced a formal policy of nondiscrimination.
- For recipients employing 15 or more persons, ascertain whether a person has been designated to oversee civil rights compliance.
- Ascertain from the grant agreements whether any of the programs contain prohibitions against discrimination on the basis of sex or religion.
- Ascertain the number of complaints filed with Federal, State and/or local agencies

responsible for ensuring nondiscrimination in government programs during the fiscal year, the status of unresolved complaints or investigations, and the actions taken on resolved complaints or completed investigations.

- Ascertain whether programs contain prohibitions against discrimination in employment; for those programs (1) review the annual report filed with the Equal Employment Opportunity Commission (EEOC), if any; (2) ascertain the number of complaints or completed investigations; and, (3) review the status of unresolved complaints or investigations and the actions taken on unresolved complaints or completed investigations.
- Determine whether facilities financed by Federal funds that are required to be located in a nondiscriminatory manner are so located.
- Obtain representation and/or attorney letters to determine if any civil rights suits have been adjudicated or are pending.

## CASH MANAGEMENT

### *Compliance Requirements*

Grantee financial management systems shall include procedures to minimize the time elapsed between the transfer of funds from the U.S. Treasury and the disbursement of funds by the grantee.

Advances made by primary recipients to secondary recipients shall conform substantially to the same standards of timing and amount as apply to advances by Federal agencies to primary recipient organizations.

### *Suggested Audit Procedures*

- Review the government's cash forecasting process and evaluate for adequacy.<sup>1</sup>
- Review the government's system for requesting Federal funds and evaluate whether it is adequate to keep Federal cash disburse-

ments limited to the government's immediate needs.

- For selected grant programs, determine dates and amounts for selected advances, drawdowns and other receipts of Federal funds and compare to the dates the funds were disbursed and/or checks were presented to the banks for payments.
- For the same programs, evaluate the size of the balances in relation to the programs needs.
- Review the government's system for monitoring advances and payment requests by secondary recipients. Evaluate whether the system is sufficient to limit payments to amounts needed to meet immediate cash requirements.

<sup>1</sup> For purposes of this supplement, adequacy can be interpreted as providing a reasonable assurance that the system or procedures, if followed, will result in the intended event or action occurring.

- Review selected cash reports submitted by subrecipients and determine if the reports

show large amounts of excess cash. If they do, ascertain why.

## RELOCATION ASSISTANCE AND REAL PROPERTY ACQUISITION

### *Compliance Requirement*

Federal aid programs may require the acquisition of property by a public agency and subsequent displacement of households and businesses.

Grant recipients acquiring property in the administration of Federal aid must carry out certain actions systematically, e.g., have property appraised in presence of owner, review appraisals, set price and negotiate settlements. Similarly, when displacements (relocations) are involved, the recipient must, for example, provide assistance systematically in locating replacement housing, assure that it meets acceptable standards and maintain records on all acquisitions and displacements (Uniform Relocation Assistance and Real Property Acquisition Policies Act of 1970 (URA) (Public Law 91-646 as amended by the Uniform Relocation Act Amendments of 1987, Title IV of the Surface Transpor-

ation and Uniform Relocation Act of 1987 (1987 Amendments) Public Law 100-17, 101 Stat. 246-256 (See Common Rule Appendix B).

### *Suggested Audit Procedures*

- Ascertain whether the recipient is administering a Federal or federally-assisted program that involves the acquisition of property or the displacement of households or businesses by a public agency.
- Review the organization's system for compliance with relocation assistance and real property acquisition requirements and evaluate for adequacy.
- Review the monitoring system for relocation and acquisition activity for selected programs and determine whether there is adherence to the prescribed procedures.

## FEDERAL FINANCIAL REPORTS

### *Compliance Requirement*

Most Federal programs require the periodic submission of financial reports that fall within one or more of the following three categories. The special requirements for each grant program are presented in the Reporting Requirements (III-D) section for that program. The suggested audit procedures are provided below to facilitate the requirement for the auditor to comment on completeness and accuracy. [Section 41, "Uniform Administrative Requirements for Grants and Cooperative Agreements to State and Local Governments" (Common Rule) and Treasury Circular 1075, "Withdrawal of Cash from the Treasury for Advances under Federal Grant and Other Programs"]

1. Section 41, "Uniform Administrative Requirements for Grants and Cooperative Agreements to State and local Governments", lists four required financial reports that apply to most of the programs described in this document.

- *Financial Status Reports (SF-269 and SF-262A)*—Report status of funds for all non-construction programs.
  - *Request for Advance or Reimbursement (SF-270)*—Requests funds for non-construction programs when advance letter of credit or predetermined advance payments are not used.
  - *Outlay Report and Request for Reimbursement for Construction Programs (SF-271)*—Requests reimbursements and reports status of funds for construction programs.
  - *Federal Cash Transactions (SF-272)*—Reports cash transactions and balances for grantees receiving cash by letter of credit or Treasury checks.
2. Treasury Circular 1075 lists two alternative cash management reports, one of which applies to each program financed through letters of credit:
- *Request for Payment on Letter of Credit and Status of Funds Report (SF-183).*

- Payment Voucher on Letter of Credit (TFS-5401).

3. Certain Federal agencies have received OMB approval to adapt the above reports or require other financial reports to meet their particular program needs.

#### *Suggested Audit Procedures*

- Review the procedures for preparing the Federal financial reports and evaluate for adequacy.

- Sample Federal financial reports for each major and/or material program and review for completeness of submission.
- Trace data to the supporting documentation, i.e., work sheets, ledgers, etc.
- Review adjustments made to the general ledger amounts in the report affecting Federal programs and evaluate for propriety.

## ALLOWABLE COSTS/COST PRINCIPLES

### *Compliance Requirement (Direct and Indirect Costs)*

The cost of a federally-supported program is comprised of the allowable direct cost of the program plus its allocable portion of allowable indirect costs less applicable credits. Federal cost principles are designed to provide that federally-assisted programs bear their fair share of recognized costs as determined by allowable cost principles. No provision for profit or other increment above cost is intended.

OMB Circular No. A-87, "Cost Principles for State and Local Governments," establishes principles and standards for determining costs applicable to grants, contracts, and other agreements with State and local governments and federally-recognized Indian Tribal governments. A cost is allowable for Federal reimbursement only to the extent of benefits received by Federal programs, and costs must meet the basic guidelines of allowability, reasonableness, allocability and remain the net of all applicable credits.

[OMB Circular No. A-87 is issued under the authority of the Budget and Accounting Act of 1921, as amended; the Budget and Accounting Procedures Act of 1950, as amended; Reorganization Plan No. 2 of 1920; and, Executive Order 11541.]

#### *Suggested Audit Procedures*

For transactions selected by the auditor which involve Federal funds, determine whether the costs meet the criteria set forth in the "Basic Guidelines" of Circular A-87, Attachment A, paragraph C, i.e., that the cost is:

1. Necessary and reasonable for the performance and administration of the

Federal program and be allocable thereto under the provisions of the Circular.

2. Authorized or not prohibited under State or local laws or regulations. Certain costs require specific approval by the grantor agency while some costs are not allowable as set forth in Circular A-87, Attachment A.
3. Conforms to any limitations or exclusions set forth in Circular A-87, or limitations in the program agreement or specific requirements in the program regulations.
4. Given consistent treatment with policies, regulations and procedures applied uniformly to Federal and non-Federal activities of the governmental unit.
5. Given consistent accounting treatment within and between accounting periods and not allocable to or included as a direct cost of a Federal program if the same or similar costs are allocated to the Federal program as an indirect cost.
6. Determined in accordance with generally accepted accounting principles.
7. Not included as a cost or used to meet cost sharing requirements of other federally-supported activity of the current or prior period.
8. Net of all applicable credits, e.g., volume or cash discounts, refunds, rental income, trade-ins, scrap sales, direct billings (in the case of indirect cost), etc.
9. Supported by underlying documentation, e.g., time and attendance payroll records, time and effort records for

employees charged to more than one activity, approved purchase orders, receiving reports, vendor invoices, cancelled checks, etc., as appropriate, and is correctly charged as to program, account, amount and period.

#### ***Compliance Requirement (Indirect Costs Only)***

In order to get reimbursed for indirect costs or centralized services, recipients must prepare cost allocation plans (CAP) and/or indirect cost rate proposals (IDCRP) that provide a basis for allocating indirect costs to Federal programs. Each State, State department and major local unit of government, as well as any other organization specifically requested to do so, must submit its CAP/IDCRP to its cognizant agency for approval. Other unlisted organizations must prepare the appropriate plans/proposals and maintain them on file for later review but may use their results in the mean time.

CAPs and IDCRPs are usually prepared on a prospective basis using actual financial data from a prior year or budgeted data for the current year. When the actual costs for the year are determined the differences between the originally-proposed costs and the actual costs are either carried forward to a subsequent CAP/IDCRP or adjusted with the granting Federal agency on a retroactive basis. In cases where fixed rates are determined and approved by the cognizant Federal agency, subsequent adjustments are not made.

There are three types of plans/proposals:

- ***State and Local Government-wide Cost Allocation Plans***—which describe the methods to be used for billing centralized services (such as computer centers, fringe benefits, motor pools, etc.) to individual user organizations/ activities (referred to as Section II costs) and which allocate the costs of unbilled central services (such as accounting, personnel, etc.) to the individual user departments or activities (Section I costs).
- ***Departmental or Local Indirect Cost Rate Proposals***—which combine the billed or allocated costs (if any) from the State-wide or local-wide plan with the departmental or local level indirect costs and compute an indirect cost rate(s) to be used in charging indirect costs to direct programs and activities.
- ***Public Assistance Cost Allocations Plans***—which describe the methods to be used to allocate State-or local-wide allocated or billed indirect costs and departmental indirect, administrative, and operating costs of State or local welfare or human services organizations to the Medicaid, Food Stamps, Child Welfare programs, etc. These plans are required by the terms of 45 CFR Part 95 which incorporates Circular A-87 by reference and are required to be revised and submitted to the Federal Government whenever an organizational or programmatic change invalidates the currently approved approach.

Audit procedures must be tailored according to the size and type of organization being reviewed.

#### ***Suggested Audit Procedures (General)***

Determine whether indirect costs or centralized or administrative services are being charged to Federal awards. If not, the rest of this section does not apply. If such costs are being charged, the following guidelines should be followed:

- Obtain and read the current CAP and or Negotiation Agreement and determine the types of rates and procedures required.
- Select a sample of claims for reimbursement submitted to the Federal agency and determine if the amounts charged and rates used are in accordance with the plan and if rates are being properly applied to the appropriate base.
- Determine whether the CAPs or IDCRPs have been approved by the appropriate Federal agency and whether or not the resultant rates or amounts charged are final or are still open to adjustment or revision, either immediately or as a carryover adjustment in a future period. If approved and final, the results of the audit work shall be reflected, if appropriate, in recommendations for future procedural improvements.
- Review on a test basis supporting documentation to determine whether:
  - The indirect cost pool or centralized service costs contain only items that are consistent with the applicable cost principles and negotiated agreements.
  - The methods of allocating the costs are in accordance with the provisions of Circular

- A-87, other applicable regulations and negotiated agreements.
- Statistical data (e.g., square footage, population, operating time, miles driven, case counts, salaries and wages) in the proposed allocation or rate bases are reasonable, updated as necessary and do not contain any material omissions.
- Time studies or time and effort reports (where and if utilized) are mathematically and statistically accurate, are implemented as approved, and are based on the actual effort devoted to the various functional and programmatic activities to which the salary and wage costs are charged.
- The indirect costs charged to Federal programs are supported by amounts recorded in the accounting records from which the most recently-issued financial statements were prepared.
- Other adjustments are made to compensate for differences between actual and estimated costs of fiscal years.
- The rate base includes all users and treats them in a consistent manner.
- Any retained earning or unexpended earnings (including reserves) are present and, if so, determine: (a) if they have been computed in accordance with the applicable cost principles, (b) if they are excessive in amount, and (c) whether a refund has been made to the Federal Government for its fair share of any amounts thereof which have been removed (transferred out) or borrowed from the fund.
- Fringe benefit allocations, charges or rates deal fairly with differing levels, if any, of benefits provided to different classes of employees.
- Independent actuarial studies appropriate for self-insurance programs and certain type of fringe benefit programs are performed and, if so, are kept current.
- Costs chargeable directly to Federal grants or any other direct activity (including any costs required for matching or cost sharing) have been excluded from the pool of indirect costs and been included in the base.
- The users of services are billed in a consistent manner and billing rates (or charges) have been adjusted to eliminate profits and unallowable costs.

#### *Additional Audit Procedures—State-Wide and Local-Wide Plans*

- For Section II (direct billed) services, determine whether:

### DRUG-FREE WORKPLACE ACT

#### *Compliance Requirement*

All grantees receiving grants, including cooperative agreements, from any Federal agency must certify that they will provide a drug-free workplace, or, in the case of a grantee who is an individual, certify to the agency that his or her conduct of grant activity will be drug-free. Making the required certification has been a precondition of receiving a grant from a Federal agency since March 18, 1989. Every grantee, except a State or State agency, is required to make this certification for each grant. A State or a State agency may elect to make a single annual certification to each Federal agency from which it obtains grants if the Federal agency has designated a central location for submission.

The grantee certifies that it will provide a drug-free workplace by:

(a) Publishing a policy statement notifying employees that the unlawful manufacture, distribution, dispensing, possession or use of a controlled substance is prohibited in the grantee's workplace and specifying the actions that will be taken against employees for violation of such prohibition;

(b) Establishing an ongoing drug-free awareness program to inform employees about:

- The dangers of drug abuse in the workplace;
- The grantee's policy of maintaining a drug-free workplace;
- Any available drug counseling, rehabilitation, and employee assistance programs; and,
- The penalties that may be imposed upon employees for drug abuse violations occurring in the workplace;

(c) Making it a requirement that each employee to be engaged in the performance of the grant be given a copy of the statement required by paragraph (a);

(d) Notifying the employee in the statement required by paragraph (a) that, as a condition of employment under the grant, the employee will:

- Abide by the terms of the statement; and
- Notify the employer in writing of any criminal drug statute conviction for a violation occurring in the workplace no later than five calendar days after such conviction;

(e) Notifying the agency in writing within ten calendar days after receiving notice under subparagraph (d)(2) from an employee or otherwise receiving actual notice of such conviction;

(f) Taking one of the following actions, within 30 calendar days of receiving notice under subparagraph (d)(2), with respect to any employee who is so convicted:

- Taking appropriate personnel action against such an employee, up to and including termination; or
- Requiring such employee to participate satisfactorily in a drug abuse assistance or rehabilitation program approved for such purposes by a Federal, State, or local health, law enforcement, or other appropriate agency.

(Public Law 100-690 Title V, Subtitle D, 41 USC 701 et seq.)

#### *Suggested Audit Procedures*

- Determine through discussions with employees and written communications to employees whether the grantee has taken action to provide a copy of the policy statement to each employee engaged in the performance of a grant.
- Ascertain whether the statement contains all the necessary notifications.
- Determine whether the grantee had established an ongoing drug-free awareness program which meets the requirements outlined above.
- Determine whether the report made to Federal grantor agencies on convictions of employees is filed and complete.
- Test a sample of employee files and determine whether the report made to Federal grantor agencies on convictions of employees is complete and if convictions were reported within 10 calendar days after the employer received any notice of an employee's conviction.
- Ascertain whether the grantee took the required personnel or treatment referral action within 30 calendar days after receiving notice of an employee conviction.

## ADMINISTRATIVE REQUIREMENTS

Federal assistance programs, with certain exceptions, are subject to the provisions of "Uniform Administrative Requirements for Grants and Cooperative Agreements to State and Local Governments" (Common Rule). The Common Rule does not apply to grants and subgrants to State and local institutions of higher education or State and local hospitals; block grants authorized by the Omnibus Budget Reconciliation Act of 1981; entitlement grants and other grants or payment programs specified in the Common Rule. These exceptions are specified in the Common Rule under the Applicability provisions of Subpart A.

Three Common Rule administrative requirements, financial reporting, cost principles and cash management principles, are covered else-

where in this part of the Compliance Supplement. The auditor should also consider those common agency administrative requirements listed below from Subpart C of the Common Rule. Agency regulations for those grant program requirements not covered by the Common rule are addressed in departmental regulations.

- Interest earned on advances
- Period of availability of funds
- Program income
- Real property
- Equipment
- Supplies
- Subawards to debarred and suspended parties

- Procurement
- Subgrants
- Revolving fund repayments

*Suggested Audit Procedures*

- Determine the applicable administrative requirements that are material to the Federal awards.
- Review and evaluate internal controls in the administrative areas selected for review.
- Test transactions for compliance.

## UNEMPLOYMENT INSURANCE

### (Federal Unemployment Tax Act/Employer Tax Credits)

17.225

This compliance supplement covers requirements for receipt of the administrative grants provided to State Employment Security Agencies (SESAs) to operate the Unemployment Insurance Program, and for State employers' receipt of tax credits against the Federal unemployment tax.

(The compliance requirements for the Federal/State Extended Benefit Program and Federal benefit programs for former Federal civilian and military employees are covered in separate supplements.)

### I. PROGRAM OBJECTIVES

The objectives of the Unemployment Insurance Program are to pay benefits to unemployed workers for periods of involuntary unemployment and to stabilize the economy by maintain-

ing the spending power of workers while they are between jobs. This program is authorized under the Federal Unemployment Tax Act and Titles III, IX, and XII of the Social Security Act.

### II. PROGRAM PROCEDURES

The Unemployment Insurance Program was established in 1935 as a joint Federal and State system. The Federal and State governments are jointly responsible for administering the unemployment insurance system.

In general, each State is free to establish its own unemployment insurance law and program covering all aspects of the Unemployment Insurance Program, including tax structure, qualifying requirements, benefit levels, and eligibility/disqualification provisions. The Federal Unemployment Tax Act (FUTA) levies a payroll tax on employers as defined in Section 3306(a) of FUTA. Employers in States with approved State unemployment insurance laws may take credit against this tax for taxes paid

under State laws. Additional tax credits are available to employers in States that have experience rating as the basis for taxes paid under the State unemployment insurance law. These Federal requirements have influenced the terms and conditions for paying benefits.

Title III of the Social Security Act provides administrative grants to the States to administer the Unemployment Insurance Program. States apply for administrative grants by submitting a Program and Budget Plan Employment and Training Administration ((ETA) Handbook No. 336) to ETA for approval. To receive full administrative grants, States must comply with the provisions of Section 303 of the Social Security Act.

### III. COMPLIANCE REQUIREMENTS AND SUGGESTED AUDIT PROCEDURES

#### A. Types of Services Allowed or Unallowed

##### *Compliance Requirements*

Administrative grant funds can be used only for the purposes and in the amounts found necessary by the Secretary of Labor for proper and efficient administration of the Unemployment Insurance Program. (Social Security Act, Title III, 303(a)(8))

##### *Suggested Audit Procedure*

Compare expenditure of administrative grants with provisions of the Program and Budget Plan assurances.



**B. Eligibility*****Compliance Requirement***

States must develop methods of administration to ensure full payment of unemployment compensation "when due." Benefits must be paid properly and promptly to those eligible under the applicable unemployment law. This same system must prohibit payments when not due. (Social Security Act; Title III 303(a)(1)) To be in compliance with this requirement, States must meet the Secretary of Labor's prompt payment standard. (20 CFR 5 640)

***Suggested Audit Procedures***

- Review the procedures for computing benefits, assessing eligibility, and making prompt payments.
- Review claimant files and documentation for claimant payment. Test to determine:
  - Eligibility for benefits.
  - Proper computation of benefit entitlement and proper charging of benefits according to State law.
  - Prompt payment of benefits.

**C. Matching, Level of Effort, and/or Earmarking Requirements**

There are no matching, level of effort, or earmarking requirements.

**D. Special Reporting Requirements**

There are no special reporting requirements.

**E. Special Tests and Provisions*****Compliance Requirement***

All employer tax payments received in the State must be immediately deposited in the Unemployment Trust Fund. (Title III, Social Security Act 303(a)(4); FUTA 3304(a)(3)).

***Suggested Audit Procedures***

- Review procedures for collecting tax receipts and depositing them in the U.S. Treasury, and evaluate for adequacy and timeliness.
- Test tax receipts to determine whether they were immediately deposited to the State's account in the Unemployment Trust Fund.

***Compliance Requirement***

All funds withdrawn from the State Unemployment Trust Fund must be used solely in payment of unemployment compensation benefits and refunds of amounts erroneously overpaid and other refunds as provided in Section 3305(b) of FUTA. Funds may not be withdrawn to finance the costs of administration, except as provided in Section 903(c)(2), Social Security Act. (Title III 303(a)(5); FUTA 3304(a)(4), 3305(b))

***Suggested Audit Procedures***

Review receipts and disbursements of funds withdrawn, including interest earned on local accounts holding such funds, to ensure proper usage.

## UNEMPLOYMENT INSURANCE (Federal/State Extended Benefit Program)

17.225

This compliance supplement covers requirements for the Federal/State Extended Benefit Program. (The compliance requirements for receipt of administrative grants, State employer

tax credits against FUTA, and the Federal benefit programs for former Federal employees and former members of the Armed Forces are covered in separate supplements.)

### I. PROGRAM OBJECTIVES

The objective of the Federal/State Extended Benefit Program is to pay extended benefits to eligible unemployed workers who have exhausted their entitlement to regular unemploy-

ment compensation during periods of high unemployment. This program is authorized under the Federal/State Extended Unemployment Compensation Act (EUCA) of 1970.

### II. PROGRAM PROCEDURES

FUTA requires that State unemployment compensation laws conform to the Federal/State EUCA, as amended. (FUTA 3304(a)(11)) In general, extended benefits are payable under the

terms and conditions of State law. In 1980, Public Law 96-499 amended the Federal/State EUCA specifically to limit eligibility for and entitlement to extended benefits.

### III. COMPLIANCE REQUIREMENTS AND SUGGESTED AUDIT PROCEDURES

#### A. Types of Services Allowed or Unallowed

The auditor is not expected to test for allowable or unallowable services.

#### B. Eligibility

##### *Compliance Requirements*

- A claimant must have exhausted regular State unemployment benefits to qualify for extended benefits. The extended benefits period is determined by the State in which the claim was originally established. (EUCA Title II 202(a)(2); 20 CFR 5 615.4)
- A claimant may receive extended benefits equal to the lesser of the following amounts:
  - One-half of the total amount of regular benefits.
  - Thirteen times his or her weekly benefit amount.

There is a 39-week limitation on total regular and extended benefits. (EUCA Title II 202(b); 20 CFR 5 615.7)

- To be eligible for a week of extended benefits, a claimant must apply for and accept suitable work. Suitable work is defined as any work that does not exceed the individual's physical and mental abilities.

An extended benefit claimant must make a "systematic and sustained effort" to seek work and must provide "tangible evidence" to the State that he or she has done so. (EUCA, Title II 202(a)(3); 20 CFR 5 615.4).

##### *Suggested Audit Procedures*

Review claimant files and documentation for claimant payment. Specifically, the review should cover eligibility for benefits, proper computation of benefit entitlement, and proper charging of benefits according to State and Federal laws.

**C. Matching, Level of Effort, and/or Earmarking Requirements*****Compliance Requirements***

- Federal funds are available to reimburse States for one-half the costs of extended benefits paid to eligible claimants. An exception is that extended benefits paid to former Federal employees and former members of the armed forces under the Unemployment Compensation for Federal Employees (UCFE) and Unemployment Compensation for Ex-Service members (UCX) programs are 100 percent reimbursable. Also, the State must pay extended benefits to former employees who are claimants of State and local governments, but these costs are not reimbursable from Federal funds.
- The first week of extended benefits is reimbursable only if the State requires the first week in an individual's benefit year be an

unpaid waiting week. (EUCA, Title II 204; 20 CFR 5 615.14)

***Suggested Audit Procedures***

- Ascertain the total cost of extended benefits.
- Ascertain the amount of extended benefits sought from the Federal Government.
- Determine whether the State requires an unpaid waiting week.

**D. Special Reporting Requirements*****Compliance Requirements***

States must submit the following reports:

- Contribution Operations Quarterly (ETA-581).
- Overpayment Detection/Recovery Activities Quarterly (ETA-227).

**E. Special Tests and Provisions**

There are no special tests or provisions.

## UNEMPLOYMENT INSURANCE

### Unemployment Compensation for Federal Employees Unemployment Compensation for Ex-Service Members

17.225

This compliance supplement covers requirements for the following two Federal unemployment compensation programs: UCFE and UCX.

(Two additional compliance supplements outline requirements for the Federal/State Ex-

tended Benefits Program and for the receipt of administrative grants under Title III of the Social Security Act. This latter supplement includes requirements for employer tax credits against the Federal unemployment tax.)

#### I. PROGRAM OBJECTIVES

The objective of UCFE and UCX Programs is to provide unemployment insurance benefits for eligible Federal employees and ex-service mem-

bers. Laws governing UCFE and UCX Programs are contained in V, Chapter 85 of the U.S.C.

#### II. PROGRAM PROCEDURES

The Department of Labor is responsible for the administering UCFE and UCX Programs through SESAs. UCFE and UCX payments are

made through State agencies under agreements with the Secretary of Labor. (U.S.C. Title V, Chapter 85 8502)

#### III. COMPLIANCE REQUIREMENTS AND SUGGESTED AUDIT PROCEDURES

##### A. Types of Services Allowed or Unallowed

The auditor is not expected to test for allowable or unallowable services.

##### B. Eligibility

##### *Compliance Requirements*

- **UCFE Eligibility:** An unemployed Federal civilian worker's eligibility is determined under the unemployment insurance law of the State in which his or her last official duty station is located, before filing his or her first claim. If eligible, he or she is entitled to unemployment benefits in the amounts and under the conditions provided by the State unemployment insurance law. (U.S.C. Title V, Chapter 85, 8502; 20 CFR 5 609.3b)
- **UCX Eligibility:** An ex-service member's eligibility is determined under the unemployment insurance law of the State in which he or she first files a claim, which establishes a benefit year after his or her

most recent separation from active military service. (U.S.C. Title V, Chapter 85 8502)

Ex-service members may receive up to 13 weeks of UCX benefits if they had 365 days or more of continuous active service in the Armed Forces or the Commissioned Corps of the National Oceanic Atmospheric Administration. To be eligible, ex-service members must have: (1) been separated under honorable conditions; (2) completed the term of active service they agreed to serve; or (3) if separated early, been separated for reasons of hardship, disability, or the Government's convenience. Claimants must serve a 4-week waiting period before being eligible for benefits. If the State has a 1-week waiting period, benefits are postponed a total of 5 weeks (U.S.C. Title V, Chapter 85 8521)

##### *Suggested Audit Procedure*

Review claimant files and documentation for claimant payment. Specifically, review should cover eligibility for benefits, proper computation

of benefit entitlement, and proper charging of benefits according to State and/or Federal law.

**C. Matching, Level of Effort, and/or Earmarking Requirements**

There are no matching, level of effort, or earmarking requirements.

**D. Special Reporting Requirements**

***Compliance Requirement***

On a quarterly basis, the State agencies must submit the ETA-191 supplement report to the Department of Labor. This report indicates the amount of UCFE and UCX benefits chargeable

to each Federal agency and military branch. (U.S.C. Title V 8509(f); 20 CFR 5 609.17, 614.18) In addition, the ES-191 must be submitted monthly. Beginning in fiscal year 1988, ETA-191 supplement and ES-191 must be combined and submitted quarterly.

***Suggested Audit Procedure***

Test for completeness and accuracy of financial reports submitted to the Department of Labor.

**E. Special Tests and Provisions**

There are no special tests or provisions.